



## **IMPENDLE LOCAL MUNICIPALITY**

Annual Financial Statements  
for the year ended June 30, 2014

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## General Information

---

|                                    |                                                                                                  |
|------------------------------------|--------------------------------------------------------------------------------------------------|
| <b>Contact Numbers</b>             | 033 996 0771                                                                                     |
| Website                            | <a href="http://www.impendle.local.gov.za">www.impendle.local.gov.za</a>                         |
| <b>Demarcation code</b>            | KZN224                                                                                           |
| <b>Mayoral committee</b>           |                                                                                                  |
| Executive Mayor                    | Ndlela S.G HW Cllr (Speaker)                                                                     |
| Councillors                        | Dlamini K.<br>Gwala C.D.<br>Mlaba S. (MPAC Chairperson)<br>Mtolo P.<br>Mvelase N.G.<br>Zuma H.T. |
| <b>Grading of local authority</b>  | Grade 1<br>Category B                                                                            |
| <b>Accounting Officer (AO)</b>     | Mabaso S.I.                                                                                      |
| <b>Chief Finance Officer (CFO)</b> | Kunene O.V.                                                                                      |
| <b>Registered office</b>           | 21 Mafahleni Street<br>Impendle<br>3227                                                          |
| <b>Business address</b>            | 21 Mafahleni Street<br>Impendle<br>3227                                                          |
| <b>Postal address</b>              | Private Bag X512<br>Impendle<br>3227                                                             |
| <b>Bankers</b>                     | Amalgamated Banks of South Africa (ABSA)<br>Chatterton Branch, Pietermaritzburg                  |
| <b>Auditors</b>                    | Auditor General South Africa                                                                     |
| <b>Attorneys</b>                   | GNG Incorporated<br>211 Burger Street<br>Pietermaritzburg<br>3227                                |

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Index

---

The reports and statements set out below comprise the annual financial statements presented to the Impendle Council:

| <b>Index</b>                                       | <b>Page</b> |
|----------------------------------------------------|-------------|
| Accounting Officer's Responsibilities and Approval | 3           |
| Statement of Financial Position                    | 4           |
| Statement of Changes in Net Assets                 | 6           |
| Statement of Financial Performance                 | 5           |
| Cash Flow Statement                                | 7           |
| Appropriation Statement                            | 8 - 7       |
| Accounting Policies                                | 8 - 21      |
| Notes to the Annual Financial Statements           | 22 - 48     |

### Abbreviations

|       |                                                     |
|-------|-----------------------------------------------------|
| COID  | Compensation for Occupational Injuries and Diseases |
| CRR   | Capital Replacement Reserve                         |
| COGTA | Co-operative Governance and Traditional Affairs     |
| GRAP  | Generally Recognised Accounting Practice            |
| HDF   | Housing Development Fund                            |
| IAS   | International Accounting Standards                  |
| EPWP  | Expanded Public Works Programme                     |
| DORA  | Division of Revenue Act                             |
| UMDM  | uMgungundlovu District Municipality                 |
| MPAC  | Municipal Public Accounts Committee                 |
| MFMA  | Municipal Finance Management Act No. 56 of 2003     |
| MIG   | Municipal Infrastructure Grant (Previously CMIP)    |
| AGSA  | Auditor General South Africa                        |
| VAT   | Value Added Tax                                     |
| R     | South African Rand                                  |

### Legislation

The following legislations were taken into account during the preparation of the Financial Statements: Constitution of the Republic of South Africa 1996, Municipal Systems Act 32 of 2000, Municipal Finance Management Act 56 of 2003, Municipal Property Rates Act 6 of 2004, Municipal Structures Act 117 of 1998 and Division of Revenue Act.

### Level of assurance

These annual financial statements have been audited with the applicable requirements of the legislation stated above.

# **Impendle Local Municipality**

Annual Financial Statements for the year ended June 30, 2014

## **Accounting Officer's Responsibilities and Approval**

---

The accounting officer is required by the Municipal Finance Management Act No. 56 of 2003, to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2014 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue its operational existence for the foreseeable future.

The municipality is dependent on the grant allocations through the Division of Revenue Act (DORA) (2013) for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Impendle Local Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's chief financial officer.

Auditor General South Africa is responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the Auditor General.

The annual financial statements set out on pages 4 to 48, which have been prepared on the going concern basis, were approved by the accounting officer on August 30, 2014 and were signed on its behalf by:

---

**Accounting Officer**  
**Mabaso S.I. (Mr)**

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Statement of Financial Position as at June 30, 2014

| Figures in Rand                                                    | Note(s) | 2014              | 2013              |
|--------------------------------------------------------------------|---------|-------------------|-------------------|
| <b>Assets</b>                                                      |         |                   |                   |
| <b>Current Assets</b>                                              |         |                   |                   |
| Receivables from exchange transactions                             | 3       | 415,979           | 280,430           |
| VAT receivable                                                     | 4       | 871,375           | 612,605           |
| Consumer debtors                                                   | 5       | 1,110,511         | 467,199           |
| Cash and cash equivalents                                          | 6       | 7,660,422         | 19,187,897        |
|                                                                    |         | <b>10,058,287</b> | <b>20,548,131</b> |
| <b>Non-Current Assets</b>                                          |         |                   |                   |
| Investment property                                                | 7       | 9,045,000         | 8,425,000         |
| Property, plant and equipment                                      | 8       | 79,761,682        | 57,216,007        |
| Intangible assets                                                  | 9       | 4                 | 93,972            |
|                                                                    |         | <b>88,806,686</b> | <b>65,734,979</b> |
| Non-Current Assets                                                 |         | 88,806,686        | 65,734,979        |
| Current Assets                                                     |         | 10,058,287        | 20,548,131        |
| Non-current assets held for sale (and) (assets of disposal groups) |         | -                 | -                 |
| <b>Total Assets</b>                                                |         | <b>98,864,973</b> | <b>86,283,110</b> |
| <b>Liabilities</b>                                                 |         |                   |                   |
| <b>Current Liabilities</b>                                         |         |                   |                   |
| Finance lease obligation                                           | 10      | 529,451           | 477,605           |
| Operating lease liability                                          |         | 153,734           | 51,078            |
| Payables from exchange transactions                                | 11      | 673,487           | 650,208           |
| Unspent conditional grants and receipts                            | 12      | 2,126,570         | 12,984,188        |
| Provisions                                                         | 13      | 2,438,731         | 1,190,153         |
| Bank overdraft                                                     | 6       | -                 | 169,233           |
|                                                                    |         | <b>5,921,973</b>  | <b>15,522,465</b> |
| <b>Non-Current Liabilities</b>                                     |         |                   |                   |
| Finance lease obligation                                           | 10      | -                 | 529,452           |
| Non-Current Liabilities                                            |         | -                 | 529,452           |
| Current Liabilities                                                |         | 5,921,973         | 15,522,465        |
| Liabilities of disposal groups                                     |         | -                 | -                 |
| <b>Total Liabilities</b>                                           |         | <b>5,921,973</b>  | <b>16,051,917</b> |
| Assets                                                             |         | 98,864,973        | 86,283,110        |
| Liabilities                                                        |         | (5,921,973)       | (16,051,917)      |
| <b>Net Assets</b>                                                  |         | <b>92,943,000</b> | <b>70,231,193</b> |
| <b>Reserves</b>                                                    |         |                   |                   |
| Revaluation reserve                                                | 14      | 8,751,726         | 7,711,614         |
| Accumulated surplus                                                |         | 84,191,274        | 62,519,579        |
| <b>Total Net Assets</b>                                            |         | <b>92,943,000</b> | <b>70,231,193</b> |

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Statement of Financial Performance

| Figures in Rand                          | Note(s) | 2014                | 2013                |
|------------------------------------------|---------|---------------------|---------------------|
| <b>Revenue</b>                           |         |                     |                     |
| Service charges- refuse removal          | 16      | 35,265              | 21,455              |
| Rendering of services                    |         | 41,290              | 34,398              |
| Rental of facilities and equipment       | 17      | 239,801             | 192,470             |
| Licences and permits                     |         | 27,789              | 22,609              |
| Other income                             | 18      | 224,976             | 5,085,545           |
| Interest received - investment           | 19      | 1,185,536           | 1,560,652           |
| Property rates                           | 20      | 1,732,359           | 1,389,621           |
| Government grants & subsidies            | 21      | 59,311,574          | 45,687,869          |
| Fines                                    |         | 23,500              | 22,250              |
| <b>Total revenue</b>                     | 22      | <b>62,822,090</b>   | <b>54,016,869</b>   |
| <b>Expenditure</b>                       |         |                     |                     |
| Salaries and wages                       | 23      | (15,890,470)        | (12,935,427)        |
| Remuneration of councillors              | 24      | (1,618,941)         | (1,387,022)         |
| Audit fees                               | 26      | (925,859)           | (475,517)           |
| Depreciation and amortisation            | 27      | (3,032,245)         | (2,004,205)         |
| Impairment loss/ Reversal of impairments | 28      | 106,235             | (4,213,036)         |
| Finance costs                            | 29      | (82,016)            | (129,106)           |
| Bad debts                                | 30      | (66,236)            | (62,540)            |
| Debt impairment                          |         | -                   | (364,974)           |
| Repairs and maintenance                  |         | (399,636)           | (713,178)           |
| Contracted services                      | 31      | (424,253)           | (343,777)           |
| Grant funded expenditure                 | 32      | (9,533,948)         | (5,455,874)         |
| General Expenses                         | 33      | (11,456,833)        | (9,249,457)         |
| <b>Total expenditure</b>                 |         | <b>(43,324,202)</b> | <b>(37,334,113)</b> |
|                                          |         | -                   | -                   |
| Total revenue                            |         | 62,822,090          | 54,016,869          |
| Total expenditure                        |         | (43,324,202)        | (37,334,113)        |
| <b>Operating surplus</b>                 |         | <b>19,497,888</b>   | <b>16,682,756</b>   |
| Fair value adjustments                   | 34      | 620,000             | 350,000             |
| Surplus before taxation                  |         | 20,117,888          | 17,032,756          |
| Taxation                                 |         | -                   | -                   |
| <b>Surplus for the year</b>              |         | <b>20,117,888</b>   | <b>17,032,756</b>   |

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Statement of Changes in Net Assets

| Figures in Rand                                       | Revaluation<br>reserve | Accumulated<br>surplus | Total net<br>assets |
|-------------------------------------------------------|------------------------|------------------------|---------------------|
| <b>Balance at July 01, 2012</b>                       | <b>2,884,676</b>       | <b>45,486,823</b>      | <b>48,371,499</b>   |
| Changes in net assets                                 |                        |                        |                     |
| Revaluation of Infrastructure Assets                  | 4,826,938              | -                      | 4,826,938           |
| Net income (losses) recognised directly in net assets | 4,826,938              | -                      | 4,826,938           |
| Surplus for the year                                  | -                      | 17,032,756             | 17,032,756          |
| Total recognised income and expenses for the year     | 4,826,938              | 17,032,756             | 21,859,694          |
| Total changes                                         | 4,826,938              | 17,032,756             | 21,859,694          |
| Opening balance as previously reported                | 7,711,614              | 62,519,580             | 70,231,194          |
| Adjustments                                           |                        |                        |                     |
| Prior year adjustments                                | -                      | 1,553,806              | 1,553,806           |
| <b>Balance at July 01, 2013 as restated*</b>          | <b>7,711,614</b>       | <b>64,073,386</b>      | <b>71,785,000</b>   |
| Changes in net assets                                 |                        |                        |                     |
| Revaluation of Infrastructure Assets                  | 1,040,112              | -                      | 1,040,112           |
| Net income (losses) recognised directly in net assets | 1,040,112              | -                      | 1,040,112           |
| Surplus for the year                                  | -                      | 20,117,888             | 20,117,888          |
| Total recognised income and expenses for the year     | 1,040,112              | 20,117,888             | 21,158,000          |
| Total changes                                         | 1,040,112              | 20,117,888             | 21,158,000          |
| <b>Balance at June 30, 2014</b>                       | <b>8,751,726</b>       | <b>84,191,274</b>      | <b>92,943,000</b>   |
| Note(s)                                               | 14                     |                        |                     |

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Cash Flow Statement

| Figures in Rand                                             | Note(s) | 2014                       | 2013                       |
|-------------------------------------------------------------|---------|----------------------------|----------------------------|
| <b>Cash flows from operating activities</b>                 |         |                            |                            |
| <b>Receipts</b>                                             |         |                            |                            |
| Grants and subsidies received                               |         | 59,331,573                 | 52,352,636                 |
| Interest income                                             |         | 1,185,536                  | 1,560,652                  |
|                                                             |         | <u>60,517,109</u>          | <u>53,913,288</u>          |
| <b>Payments</b>                                             |         |                            |                            |
| Employee costs                                              |         | (17,169,957)               | (13,938,175)               |
| Suppliers                                                   |         | (31,361,975)               | (18,295,125)               |
| Finance costs                                               |         | (82,016)                   | (129,106)                  |
|                                                             |         | <u>(48,613,948)</u>        | <u>(32,362,406)</u>        |
| Total receipts                                              |         | 60,517,109                 | 53,913,288                 |
| Total payments                                              |         | (48,613,948)               | (32,362,406)               |
| <b>Net cash flows from operating activities</b>             | 35      | <b><u>11,903,161</u></b>   | <b><u>21,550,882</u></b>   |
| <b>Cash flows from investing activities</b>                 |         |                            |                            |
| Purchase of property, plant and equipment                   | 8       | (36,222,419)               | (20,646,330)               |
| Proceeds from sale of property, plant and equipment         | 8       | 17,446                     | 59,790                     |
| Purchase of investment property                             | 7       | -                          | (275,000)                  |
| Purchase of other intangible assets                         | 9       | -                          | (235,991)                  |
| Proceeds from sale of other intangible assets               | 9       | -                          | 54,310                     |
| Non cash items                                              | 36      | 13,421,175                 | 3,270,853                  |
| <b>Net cash flows from investing activities</b>             |         | <b><u>(22,783,798)</u></b> | <b><u>(17,772,368)</u></b> |
| <b>Cash flows from financing activities</b>                 |         |                            |                            |
| Loan (payments) / receipts                                  |         | (477,606)                  | (445,178)                  |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |         | <b><u>(11,358,243)</u></b> | <b><u>3,333,336</u></b>    |
| Cash and cash equivalents at the beginning of the year      |         | 19,018,664                 | 15,685,329                 |
| <b>Cash and cash equivalents at the end of the year</b>     | 6       | <b><u>7,660,421</u></b>    | <b><u>19,018,665</u></b>   |



# **Impendle Local Municipality**

Annual Financial Statements for the year ended June 30, 2014

## **Accounting Policies**

---

### **1. Presentation of Annual Financial Statements**

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act No. 56 of 2003.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

#### **1.1 Presentation currency**

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### **1.2 Going concern assumption**

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### **1.3 Significant judgements and sources of estimation uncertainty**

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

#### **Trade receivables and receivables**

The municipality assesses its trade receivables and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio.

#### **Fair value estimation**

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

#### **Impairment testing**

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of and tangible assets.

# **Impendle Local Municipality**

Annual Financial Statements for the year ended June 30, 2014

## **Accounting Policies**

---

### **1.3 Significant judgements and sources of estimation uncertainty (continued)**

#### **Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

#### **Effective interest rate**

The municipality used the prime interest rate to discount future cash flows.

#### **Useful lives of property, plant and equipment and intangible assets**

As described in Accounting Policies 3, the municipality depreciates/amortises its property, plant and equipment, and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry knowledge.

#### **Provision for Rehabilitation of Refuse Transfer Station**

The municipality has an obligation to rehabilitate its refuse transfer station. Provision is made for this obligation based on the size / extent of the land to be rehabilitated, the rehabilitation cost per square metre. Current costs are projected based on the fair value calculations by the Engineering Consultants, using the average rate of inflation over the remaining period until rehabilitation.

#### **Allowance for doubtful debts**

The measurement of receivables is derived after consideration of the allowance for doubtful debts. Management makes certain assumptions regarding the categorisation of debtors into groups with similar risk profiles so that the effect of any impairment on a group of receivables would not differ materially from the impairment that would have been determined had each debtor been assessed for impairment on an individual basis. The determination of this allowance is predisposed to the utilisation of estimates, assumptions and management judgements. In determining this allowance the estimates are made about the probability of recovery of the debtors based on their past payment history and risk profile.

### **1.4 Investment property**

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Accounting Policies

---

### 1.4 Investment property (continued)

#### Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the municipality determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the municipality determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the municipality measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The municipality applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the municipality becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

### 1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price, total construction costs and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts, taxes and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Accounting Policies

---

### 1.5 Property, plant and equipment (continued)

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for infrastructure assets and investment assets which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

| Item                                   | Average useful life |
|----------------------------------------|---------------------|
| Buildings                              | 30                  |
| Plant and machinery                    | 10-15               |
| Furniture and fixtures                 | 10                  |
| Motor vehicles                         | 5-9                 |
| Office equipment                       |                     |
| • Computer hardware                    | 4                   |
| • Office machine                       | 3-5                 |
| IT equipment                           | 3-5                 |
| Computer software                      | 3-5                 |
| Infrastructure                         | 10                  |
| Community                              |                     |
| • Sport fields                         | 30                  |
| Ancillary fleet equipment and security |                     |
| • Security measures 3                  | 3                   |
| • Security measures 5                  | 5                   |

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Accounting Policies

---

### 1.5 Property, plant and equipment (continued)

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimate recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

### Derecognition

Items of property, plant and equipment are recognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. the gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

### 1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequences of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Accounting Policies

---

### 1.7 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided, sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost. An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably. Intangible asset are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

| Item                     | Useful life |
|--------------------------|-------------|
| Computer software, other | 3-5 years   |

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

# **Impendle Local Municipality**

Annual Financial Statements for the year ended June 30, 2014

## **Accounting Policies**

---

### **1.8 Financial instruments**

#### **Classification**

The municipality classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through surplus or deficit - designated
- Loans and receivables

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

#### **Initial recognition and measurement**

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

#### **Subsequent measurement**

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit dividends or similar distributions and interest.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

# **Impendle Local Municipality**

Annual Financial Statements for the year ended June 30, 2014

## **Accounting Policies**

---

### **1.8 Financial instruments (continued)**

#### **Impairment of financial assets**

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

#### **Receivables from exchange transactions**

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

#### **Payables from exchange transactions**

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.



# **Impendle Local Municipality**

Annual Financial Statements for the year ended June 30, 2014

## **Accounting Policies**

---

### **1.8 Financial instruments (continued)**

#### **Bank overdraft and borrowings**

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

### **1.9 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### **Finance leases - lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

#### **Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

#### **Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### **1.10 Impairment of cash-generating assets**

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Accounting Policies

---

### 1.10 Impairment of cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

### 1.11 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Accounting Policies

---

### 1.11 Employee benefits (continued)

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

#### Post-employment benefits: Defined benefit plans

The municipality does not have post employment benefit plans. However, the municipality recognises its employees who have completed 10, 20, 30, 40 years of service in terms of the collective agreement.

Actuarial valuations are conducted on an annual basis by independent actuaries. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

### 1.12 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

# **Impendle Local Municipality**

Annual Financial Statements for the year ended June 30, 2014

## **Accounting Policies**

---

### **1.12 Provisions and contingencies (continued)**

A constructive obligation to restructure arises only when a municipality:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

### **1.13 Revenue from exchange transactions**

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### **Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

### **1.14 Commitments**

The term commitments' is not defined in any of the standards but may be referred to as the intention to commit to an outflow from the municipality of resources embodying economic benefits. Generally, a commitment arises when a decision is made to incur a liability in the form of a purchase contract (or similar documentation). Such a contractual commitment would be accompanied by, but not limited to, actions taken to determine the amount of the eventual resource outflow or a reliable estimate e.g. a quote, and conditions to be satisfied to establish an obligation e.g. delivery schedules. These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement. An agency may enter into a contract on or before the reporting date for expenditure over subsequent accounting periods e.g. a contract for construction of infrastructure assets, the purchase of major items of plant and equipment or significant consultancy contracts. In these events, a commitment exists at the reporting date as the municipality has contracted for expenditure but work has not commenced and no payments have been made.

### **1.15 Investment income**

Investment income is recognised on a time-proportion basis using the effective interest method.

### **1.16 Borrowing costs**

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### **1.17 Comparative figures**

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### **1.18 Unauthorised expenditure**

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

# **Impendle Local Municipality**

Annual Financial Statements for the year ended June 30, 2014

## **Accounting Policies**

---

### **1.18 Unauthorised expenditure (continued)**

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### **1.19 Fruitless and wasteful expenditure**

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### **1.20 Irregular expenditure**

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and which have not been condoned as the end of the year must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### **1.21 Revaluation reserve**

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

### **1.22 Conditional grants and receipts**

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

### **1.23 Segmental information**

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Accounting Policies

---

### 1.23 Segmental information (continued)

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

### 1.24 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### 1.25 Value Added Taxation

The Municipality accounts for Value Added Tax on payment basis. This means that VAT is declared to the South African Receiver of Revenue Services as input VAT or output VAT only when payments are made to suppliers or payments are received for goods and services. The net output VAT on debtors where money has not been received or creditors where payments has not yet been made is disclosed separately in the Statements of Financial Position in terms of GRAP 1.

### 1.26 Events after the Reporting Period

Adjusting and non-adjusting events may occur between the reporting date and the date the report is authorised for issue. Where an adjusting event occurs that affects a liability that has been disclosed, for example, the amount or timing of a liability has altered or an uncertainty relating to a provision has been removed, then an adjustment to that item is required. Where a future obligation relating to a contingent liability has been confirmed, i.e. a court case is settled after the reporting date and the contingency has previously been disclosed in a note, then a liability or provision will need to be recognised as follows:

- as a provision if some uncertainty still exists with respect to the amount or timing of the discharge of the obligation; or
- as a liability if no uncertainties exist. Where a non-adjusting event occurs relating to liabilities, for example, the market value of a financial liability changes after the reporting date, no adjustments are made to the financial statements. However, if a non-adjusting event is material, the agency must disclose the following for each material category of non-adjusting event after the reporting date: the nature of the event; and
- an estimate of its financial effect, or a statement that such an estimate cannot be made.

# Notes to the Annual Financial Statements

---

## 2. New standards and interpretations

### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

#### **GRAP 18: Segment Reporting**

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions on the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after April 01, 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

The impact of this standard is currently being assessed.

#### **GRAP 25: Employee benefits**

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after April 01, 2013.

The municipality has adopted the standard for the first time in the 2014 annual financial statements.

The impact of the standard is set out in note Changes in Accounting Policy.

#### **GRAP 105: Transfers of functions between entities under common control**

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between municipalities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that municipalities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after April 01, 2014.

The impact of this amendment is currently being assessed.

## Notes to the Annual Financial Statements

---

### 2. New standards and interpretations (continued)

#### **GRAP 106: Transfers of functions between entities not under common control**

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between municipalities not under common control. It requires a municipality that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that municipalities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between municipalities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after April 01, 2014.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### **GRAP 107: Mergers**

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between municipalities not under common control. It requires a municipality that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that municipalities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between municipalities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after April 01, 2014.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The impact of this amendment is currently being assessed.

#### **GRAP 20: Related parties**

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.



# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Notes to the Annual Financial Statements

---

### 2. New standards and interpretations (continued)

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after April 01, 2014.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The impact of this standard is currently being assessed.

### GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements

Paragraph .59 was amended by Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107] from the date at which it first applied the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations. If an entity elects to apply these amendments earlier, it shall disclose this fact.

An entity shall apply this amendment for annual financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

The municipality expects to adopt the amendment for the first time in the 2015 annual financial statements.

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Notes to the Annual Financial Statements

---

### 2. New standards and interpretations (continued)

The impact of this amendment is currently being assessed.

#### **GRAP 7 (as revised 2010): Investments in Associates**

Paragraphs .03 and .42 were amended by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

An entity shall apply this amendment for annual financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

The municipality expects to adopt the amendment for the first time in the 2015 annual financial statements.

The impact of this amendment is currently being assessed.

#### **GRAP 8 (as revised 2010): Interests in Joint Ventures**

Paragraph .04 was amended by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

An entity shall apply this amendment for annual financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

The municipality expects to adopt the amendment for the first time in the 2015 annual financial statements.

The impact of this amendment is currently being assessed.

#### **GRAP 1 (as revised 2012): Presentation of Financial Statements**

Paragraphs .108 and .109 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to the Statement of Financial Performance as well as the Statement of Changes in Net Assets.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after April 01, 2013

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

#### **GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors**

Paragraphs .17 and .18 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Changes in Accounting Policies.

The effective date of the amendment is for years beginning on or after April 01, 2013

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

#### **GRAP 7 (as revised 2012): Investments in Associates**

Paragraph .17 was amended by the improvements to the Standards of GRAP issued previously:

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Notes to the Annual Financial Statements

---

### 2. New standards and interpretations (continued)

Amendments were made to Definitions.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after April 01, 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

#### **GRAP 9 (as revised 2012): Revenue from Exchange Transactions**

Paragraphs .11 and .13 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to the Scope and Definitions.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after April 01, 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

#### **GRAP 12 (as revised 2012): Inventories**

Paragraph .30 was amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Measurement after recognition.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after April 01, 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

#### **GRAP 13 (as revised 2012): Leases**

Paragraphs .38 and .42 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Disclosures.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after April 01, 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

#### **GRAP 16 (as revised 2012): Investment Property**

Paragraphs .12, .15, .34, .76, .84 and .87 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Definitions, Measurement at recognition, Disposals and Disclosure.

All amendments to be applied prospectively.

# **Impendle Local Municipality**

Annual Financial Statements for the year ended June 30, 2014

## **Notes to the Annual Financial Statements**

---

### **2. New standards and interpretations (continued)**

The effective date of the amendment is for years beginning on or after April 01, 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

#### **GRAP 17 (as revised 2012): Property, Plant and Equipment**

Paragraphs .44, .45, .72, .75, .79 and .85 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Measurement after recognition, Derecognition and Disclosure.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after April 01, 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

#### **GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)**

The effective date of the amendment is for years beginning on or after April 01, 2014

The municipality expected to adopt the amendment for the first time in the 2014 annual financial statements.

The standard is not relevant to the municipality

#### **GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)**

This standard of GRAP replaces the previous Standard of GRAP on intangible assets (GRAP 102) due to the IPSASB that issued an IPSAS on intangible Assets (IPSAS 31)

The effective date of the amendment is for years beginning on or after April 01, 2014.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

#### **GRAP108: Statutory Receivables**

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Notes to the Annual Financial Statements

| Figures in Rand                                   | 2014             | 2013              |
|---------------------------------------------------|------------------|-------------------|
| <b>3. Receivables from exchange transactions</b>  |                  |                   |
| Prepayments                                       | 135,103          | -                 |
| Operating lease receivables (if immaterial)       | (2)              | (1)               |
| Other receivables                                 | 275,109          | 221,959           |
| Staff debtors                                     | 5,769            | 58,472            |
|                                                   | <b>415,979</b>   | <b>280,430</b>    |
| <b>4. VAT receivable</b>                          |                  |                   |
| VAT                                               | 871,375          | 612,605           |
| <b>5. Consumer debtors</b>                        |                  |                   |
| <b>Gross balances</b>                             |                  |                   |
| Rates                                             | 1,157,731        | 865,404           |
| <b>Less: Allowance for impairment</b>             |                  |                   |
| Rates                                             | (47,220)         | (398,205)         |
| <b>Net balance</b>                                |                  |                   |
| Rates                                             | 1,110,511        | 467,199           |
| <b>Rates</b>                                      |                  |                   |
| Current (0 -30 days)                              | 38,007           | 87,812            |
| 31 - 60 days                                      | 32,171           | 61,162            |
| 61 - 90 days                                      | 24,673           | 61,120            |
| 91 - 120 days                                     | 24,108           | 44,672            |
| 121 - 365 days                                    | 370,377          | 35,804            |
| > 365 days                                        | 621,175          | 176,629           |
|                                                   | <b>1,110,511</b> | <b>467,199</b>    |
| <b>Reconciliation of allowance for impairment</b> |                  |                   |
| Balance at beginning of the year                  | (398,205)        | (64,033)          |
| Contributions to allowance                        | (47,220)         | (396,712)         |
| Debt impairment written off against allowance     | -                | 62,540            |
| Reversal of allowance                             | 398,205          | -                 |
|                                                   | <b>(47,220)</b>  | <b>(398,205)</b>  |
| <b>6. Cash and cash equivalents</b>               |                  |                   |
| Cash and cash equivalents consist of:             |                  |                   |
| Cash on hand                                      | 10,000           | 10,000            |
| Bank balances                                     | 7,650,422        | -                 |
| Short-term deposits                               | -                | 19,177,897        |
| Bank overdraft                                    | -                | (169,233)         |
|                                                   | <b>7,660,422</b> | <b>19,018,664</b> |
| Current assets                                    | 7,660,422        | 19,187,897        |
| Current liabilities                               | -                | (169,233)         |
|                                                   | <b>7,660,422</b> | <b>19,018,664</b> |

There were no contract debtors that were pledged as security for overdraft facilities during the 2014 financial year.

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Notes to the Annual Financial Statements

Figures in Rand 2014 2013

### 6. Cash and cash equivalents (continued)

The municipality had the following bank accounts

| Account number / description                           | Bank statement balances |                   |                   | Cash book balances |                   |                   |
|--------------------------------------------------------|-------------------------|-------------------|-------------------|--------------------|-------------------|-------------------|
|                                                        | June 30, 2014           | June 30, 2013     | June 30, 2012     | June 30, 2014      | June 30, 2013     | June 30, 2012     |
| ABSA BANK - Account Type - Current Account- 4076240270 | 7,782,809               | (150,799)         | 14,031,481        | 7,650,422          | (169,233)         | 13,953,845        |
| Standard BANK - Call Account - 636864901               | -                       | 239,378           | 367,441           | -                  | 239,378           | 367,441           |
| Standard BANK - Call Account - 636863484               | -                       | 70,186            | 122,117           | -                  | 70,186            | 122,117           |
| Standard BANK - Call Account - 636863476               | -                       | 70,573            | 189,353           | -                  | 70,573            | 189,354           |
| Standard Bank - Call Account - 253535751               | -                       | -                 | 10,756            | -                  | -                 | 10,756            |
| ABSA Bank - Call Account - 2071861728                  | -                       | -                 | 377,228           | -                  | -                 | 377,228           |
| First National Bank - Call Account - 62248415607       | -                       | -                 | 654,588           | -                  | -                 | 654,588           |
| Nedbank- Call Account- 037881012463-000012             | -                       | 1,280,812         | -                 | -                  | 1,280,812         | -                 |
| Nedbank- Call Account- 037881612463-000011             | -                       | 5,525,287         | -                 | -                  | 5,525,287         | -                 |
| Nedbank Bank- Call Account- 037881012463000013         | -                       | 2,444,157         | -                 | -                  | 2,444,157         | -                 |
| Standard Bank- Call Account- 258541326003              | -                       | 1,854,759         | -                 | -                  | 1,854,759         | -                 |
| Nedbank- Call Account- 037881012463-000015             | -                       | 110,401           | -                 | -                  | 110,401           | -                 |
| ABSA Bank- Call Account- 9276248099                    | -                       | 289,900           | -                 | -                  | 289,900           | -                 |
| Nedbank- Call Account - 037881012463-000018            | -                       | 20,907            | -                 | -                  | 20,907            | -                 |
| Standard Bank- Call Account- 258541326002              | -                       | 5,055,796         | -                 | -                  | 5,055,796         | -                 |
| Nedbank- Call Account- 037881012463-000020             | -                       | 336,235           | -                 | -                  | 336,235           | -                 |
| ABSA Bank- Call Account- 9280671957                    | -                       | 395,176           | -                 | -                  | 395,176           | -                 |
| ABSA Bank- Call Account- 9275397439                    | -                       | 5,499             | -                 | -                  | 5,499             | -                 |
| ABSA Bank- Call Account- 9276043338                    | -                       | 1,478,831         | -                 | -                  | 1,478,831         | -                 |
| Petty Cash                                             | 10,000                  | 10,000            | -                 | 10,000             | 10,000            | -                 |
| <b>Total</b>                                           | <b>7,792,809</b>        | <b>19,037,098</b> | <b>15,752,964</b> | <b>7,660,422</b>   | <b>19,018,664</b> | <b>15,675,329</b> |

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Notes to the Annual Financial Statements

| Figures in Rand | 2014 | 2013 |
|-----------------|------|------|
|-----------------|------|------|

### 7. Investment property

|                     | 2014             |                                                     |                | 2013             |                                                     |                |
|---------------------|------------------|-----------------------------------------------------|----------------|------------------|-----------------------------------------------------|----------------|
|                     | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Investment property | 9,045,000        | -                                                   | 9,045,000      | 8,425,000        | -                                                   | 8,425,000      |

#### Reconciliation of investment property - 2014

|                     | Opening balance | Fair value adjustments | Total     |
|---------------------|-----------------|------------------------|-----------|
| Investment property | 8,425,000       | 620,000                | 9,045,000 |

#### Reconciliation of investment property - 2013

|                     | Opening balance | Additions resulting from capitalised subsequent expenditure | Fair value adjustments | Total     |
|---------------------|-----------------|-------------------------------------------------------------|------------------------|-----------|
| Investment property | 7,800,000       | 275,000                                                     | 350,000                | 8,425,000 |

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### Transitional provisions

### 8. Property, plant and equipment

|                                     | 2014              |                                                     |                   | 2013              |                                                     |                   |
|-------------------------------------|-------------------|-----------------------------------------------------|-------------------|-------------------|-----------------------------------------------------|-------------------|
|                                     | Cost / Valuation  | Accumulated depreciation and accumulated impairment | Carrying value    | Cost / Valuation  | Accumulated depreciation and accumulated impairment | Carrying value    |
| Land                                | 6,907,000         | -                                                   | 6,907,000         | 6,907,000         | -                                                   | 6,907,000         |
| Buildings                           | 4,481,251         | (1,546,501)                                         | 2,934,750         | 4,457,628         | (1,397,787)                                         | 3,059,841         |
| Plant and machinery                 | 2,835,403         | (1,097,251)                                         | 1,738,152         | 2,835,403         | (886,058)                                           | 1,949,345         |
| Furniture and fixtures              | 1,327,338         | (704,796)                                           | 622,542           | 1,275,569         | (587,092)                                           | 688,477           |
| Motor vehicles                      | 884,840           | (685,633)                                           | 199,207           | 765,034           | (583,299)                                           | 181,735           |
| Office equipment                    | 309,581           | (236,528)                                           | 73,053            | 283,271           | (213,047)                                           | 70,224            |
| IT equipment                        | 770,319           | (492,969)                                           | 277,350           | 721,052           | (418,516)                                           | 302,536           |
| Infrastructure                      | 17,356,233        | (7,941,240)                                         | 9,414,993         | 13,789,734        | (6,527,521)                                         | 7,262,213         |
| Community                           | 21,618,739        | (1,279,968)                                         | 20,338,771        | 11,988,578        | (663,341)                                           | 11,325,237        |
| Other property, plant and equipment | 412,284           | (359,181)                                           | 53,103            | 392,320           | (313,964)                                           | 78,356            |
| Communication equipment             | 151,812           | (129,859)                                           | 21,953            | 132,467           | (126,405)                                           | 6,062             |
| Assets under construction           | 37,169,221        | -                                                   | 37,169,221        | 25,374,216        | -                                                   | 25,374,216        |
| Other kitchen equipment             | 35,591            | (24,004)                                            | 11,587            | 36,965            | (26,200)                                            | 10,765            |
| <b>Total</b>                        | <b>94,259,612</b> | <b>(14,497,930)</b>                                 | <b>79,761,682</b> | <b>68,959,237</b> | <b>(11,743,230)</b>                                 | <b>57,216,007</b> |

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Notes to the Annual Financial Statements

Figures in Rand

### 8. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2014

|                           | Opening<br>balance | Additions         | Newly<br>Identified<br>Assets | Assets written<br>off | Transfers           | Revaluations     | Other changes,<br>movements | Depreciation       | Impairment<br>loss | Impairment<br>reversal | Total             |
|---------------------------|--------------------|-------------------|-------------------------------|-----------------------|---------------------|------------------|-----------------------------|--------------------|--------------------|------------------------|-------------------|
| Land                      | 6,907,000          | -                 | -                             | -                     | -                   | -                | -                           | -                  | -                  | -                      | 6,907,000         |
| Buildings                 | 3,059,841          | 23,623            | -                             | -                     | -                   | -                | -                           | (148,714)          | -                  | -                      | 2,934,750         |
| Plant and machinery       | 1,949,345          | -                 | -                             | -                     | -                   | -                | -                           | (127,198)          | (83,995)           | -                      | 1,738,152         |
| Furniture and fixtures    | 688,477            | 69,171            | -                             | (11,810)              | -                   | -                | (13,904)                    | (109,392)          | -                  | -                      | 622,542           |
| Motor vehicles            | 181,735            | 119,806           | -                             | -                     | -                   | -                | -                           | (102,334)          | -                  | -                      | 199,207           |
| Office equipment          | 70,224             | 32,572            | -                             | (887)                 | -                   | -                | -                           | (28,856)           | -                  | -                      | 73,053            |
| IT equipment              | 302,536            | 130,721           | -                             | (4,749)               | -                   | -                | -                           | (151,158)          | -                  | -                      | 277,350           |
| Infrastructure            | 7,262,213          | 2,526,387         | -                             | -                     | -                   | 1,040,111        | -                           | (1,603,949)        | -                  | 190,231                | 9,414,993         |
| Community                 | 11,325,237         | 8,292,914         | 1,337,247                     | -                     | -                   | -                | (9,648)                     | (606,979)          | -                  | -                      | 20,338,771        |
| Security Measures         | 78,356             | -                 | -                             | -                     | -                   | -                | (25,253)                    | -                  | -                  | -                      | 53,103            |
| Security equipment        | -                  | 3,595             | 21,655                        | -                     | -                   | -                | 25,253                      | (50,503)           | -                  | -                      | -                 |
| Communication equipment   | 6,062              | 19,345            | -                             | -                     | -                   | -                | -                           | (3,454)            | -                  | -                      | 21,953            |
| Assets under construction | 25,374,216         | 23,638,818        | -                             | -                     | (11,843,813)        | -                | -                           | -                  | -                  | -                      | 37,169,221        |
| Kitchen equipment         | 10,765             | 6,565             | -                             | -                     | -                   | -                | -                           | (5,743)            | -                  | -                      | 11,587            |
|                           | <b>57,216,007</b>  | <b>34,863,517</b> | <b>1,358,902</b>              | <b>(17,446)</b>       | <b>(11,843,813)</b> | <b>1,040,111</b> | <b>(23,552)</b>             | <b>(2,938,280)</b> | <b>(83,995)</b>    | <b>190,231</b>         | <b>79,761,682</b> |



# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Notes to the Annual Financial Statements

Figures in Rand

### 8. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2013

|                           | Opening<br>balance | Additions         | Additions<br>through entity<br>combinations | Disposals       | Transfers   | Revaluations     | Other changes,<br>movements | Depreciation       | Impairment<br>loss | Total             |
|---------------------------|--------------------|-------------------|---------------------------------------------|-----------------|-------------|------------------|-----------------------------|--------------------|--------------------|-------------------|
| Land                      | 3,927,273          | -                 | 2,997,000                                   | -               | (17,273)    | -                | -                           | -                  | -                  | 6,907,000         |
| Buildings                 | 3,191,156          | -                 | -                                           | -               | 17,273      | -                | -                           | (148,588)          | -                  | 3,059,841         |
| Plant and machinery       | 2,208,092          | 8,290             | -                                           | -               | -           | -                | -                           | (187,797)          | (79,240)           | 1,949,345         |
| Furniture and fixtures    | 749,747            | 69,954            | -                                           | (24,854)        | -           | -                | -                           | (106,370)          | -                  | 688,477           |
| Motor vehicles            | 268,811            | -                 | -                                           | -               | -           | -                | 44,521                      | (131,597)          | -                  | 181,735           |
| Office equipment          | 98,077             | 18,203            | -                                           | (1,148)         | -           | -                | -                           | (44,908)           | -                  | 70,224            |
| IT equipment              | 392,771            | 44,747            | -                                           | (32,835)        | -           | -                | -                           | (102,147)          | -                  | 302,536           |
| Infrastructure            | 7,122,114          | -                 | -                                           | -               | 40,602      | 4,826,938        | -                           | (594,813)          | (4,132,628)        | 7,262,213         |
| Community                 | 6,549,352          | -                 | -                                           | -               | 4,965,925   | -                | 46,890                      | (236,930)          | -                  | 11,325,237        |
| Security Measures         | 177,205            | -                 | -                                           | -               | -           | -                | (98,849)                    | -                  | -                  | 78,356            |
| Security equipment        | -                  | 47,892            | -                                           | -               | -           | -                | 51,959                      | (99,851)           | -                  | -                 |
| Communication equipment   | 7,473              | 4,192             | -                                           | -               | -           | -                | -                           | (5,603)            | -                  | 6,062             |
| Assets under construction | 12,924,691         | 17,456,052        | -                                           | -               | (5,006,527) | -                | -                           | -                  | -                  | 25,374,216        |
| Kitchen Equipments        | 19,389             | -                 | -                                           | (953)           | -           | -                | -                           | (7,671)            | -                  | 10,765            |
|                           | <b>37,636,151</b>  | <b>17,649,330</b> | <b>2,997,000</b>                            | <b>(59,790)</b> | <b>-</b>    | <b>4,826,938</b> | <b>44,521</b>               | <b>(1,666,275)</b> | <b>(4,211,868)</b> | <b>57,216,007</b> |

#### Assets subject to finance lease (Net carrying amount)

|                     |                |                  |
|---------------------|----------------|------------------|
| Plant and machinery | 932,348        | 1,052,676        |
| Motor vehicles      | 64,078         | 149,515          |
|                     | <b>996,426</b> | <b>1,202,191</b> |

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Notes to the Annual Financial Statements

| Figures in Rand | 2014 | 2013 |
|-----------------|------|------|
|-----------------|------|------|

### 8. Property, plant and equipment (continued)

#### Revaluations

The effective date of the revaluations was Monday, June 30, 2014. Revaluations were performed by independent valuer, Jeffares & Green. Jeffares & Green is not connected to the municipality. The valuations for infrastructure assets are performed by an independent suitably qualified property valuer every year.

Investment properties are fair-valued independently every year.

The valuation was performed using the discounted cash flow approach and the following assumptions were used:  
Discount rate.

These assumptions were based on current market conditions.

#### Reconciliation of Work-in-Progress 2014

|                                | Included within<br>Community | Total             |
|--------------------------------|------------------------------|-------------------|
| Opening balance                | 25,374,216                   | 25,374,216        |
| Additions/capital expenditure  | 23,638,817                   | 23,638,817        |
| Transferred to completed items | (11,843,813)                 | (11,843,813)      |
|                                | <b>37,169,220</b>            | <b>37,169,220</b> |

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 9. Intangible assets

|                   | 2014                |                                                                 |                | 2013                |                                                                 |                |
|-------------------|---------------------|-----------------------------------------------------------------|----------------|---------------------|-----------------------------------------------------------------|----------------|
|                   | Cost /<br>Valuation | Accumulated<br>amortisation<br>and<br>accumulated<br>impairment | Carrying value | Cost /<br>Valuation | Accumulated<br>amortisation<br>and<br>accumulated<br>impairment | Carrying value |
| Computer software | 469,828             | (469,824)                                                       | 4              | 705,819             | (611,847)                                                       | 93,972         |

#### Reconciliation of intangible assets - 2014

|                   | Opening<br>balance | Amortisation | Total |
|-------------------|--------------------|--------------|-------|
| Computer software | 93,972             | (93,968)     | 4     |

#### Reconciliation of intangible assets - 2013

|                   | Opening<br>balance | Additions | Disposals | Amortisation | Total  |
|-------------------|--------------------|-----------|-----------|--------------|--------|
| Computer software | 250,242            | 235,991   | (54,310)  | (337,951)    | 93,972 |

#### Pledged as security

No assets were pledged as security.

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Notes to the Annual Financial Statements

| Figures in Rand                                    | 2014           | 2013             |
|----------------------------------------------------|----------------|------------------|
| <b>10. Finance lease obligation</b>                |                |                  |
| <b>Minimum lease payments due</b>                  |                |                  |
| - within one year                                  | 529,452        | 477,605          |
| - in second to fifth year inclusive                | -              | 529,452          |
| <b>Present value of minimum lease payments</b>     | <b>529,452</b> | <b>1,007,057</b> |
| <b>Present value of minimum lease payments due</b> |                |                  |
| - within one year                                  | 529,452        | 477,605          |
| - in second to fifth year inclusive                | -              | 529,452          |
|                                                    | <b>529,452</b> | <b>1,007,057</b> |
| Non-current liabilities                            | -              | 529,452          |
| Current liabilities                                | 529,451        | 477,605          |
|                                                    | <b>529,451</b> | <b>1,007,057</b> |

The municipality acquired a loan with Absa bank in August 2010 at a flat rate of 10.3% for a period of five years.

Interest rates are fixed at the contract date. All leases have fixed repayments.

For assets purchased under this lease refer to note no. 4 (property, plant and equipment).

### 11. Payables from exchange transactions

|                               |                |                |
|-------------------------------|----------------|----------------|
| Trade payables                | -              | 64,046         |
| Accrued expenses              | -              | 296,819        |
| Long Service Award            | 341,640        | -              |
| Workmen's Compensation Fund   | -              | 246,498        |
| Deposits received (indemnity) | 1,800          | -              |
| Retention                     | 330,047        | 42,845         |
|                               | <b>673,487</b> | <b>650,208</b> |

### 12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

|                                                |                  |                   |
|------------------------------------------------|------------------|-------------------|
| <b>Unspent conditional grants and receipts</b> |                  |                   |
| Small Town Rehabilitation Grant                | 1,240,364        | 4,943,327         |
| Cyber Cadet Grant                              | 36,890           | -                 |
| IDP Public Participation Grant                 | 1,424            | -                 |
| Housing Fund Grant                             | 381,091          | 380,138           |
| Milling Grant                                  | 311,547          | 2,167,609         |
| Municipal Infrastructure Grant                 | -                | 135,267           |
| Electrification Grant                          | -                | 5,000,000         |
| Sport and Recreation Grant                     | 11,476           | 100,447           |
| Expended Public Work Program Grant             | -                | 11,767            |
| Thusong Services Centre Grant                  | 123,778          | 245,633           |
| HIV/AIDS Grant (UMDM)                          | 20,000           | -                 |
|                                                | <b>2,126,570</b> | <b>12,984,188</b> |

### Movement during the year

|                                      |                  |                   |
|--------------------------------------|------------------|-------------------|
| Balance at the beginning of the year | 12,984,188       | 16,210,996        |
| Additions during the year            | 26,003,805       | 26,089,800        |
| Income recognition during the year   | (36,861,423)     | (29,316,608)      |
|                                      | <b>2,126,570</b> | <b>12,984,188</b> |

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Notes to the Annual Financial Statements

| Figures in Rand | 2014 | 2013 |
|-----------------|------|------|
|-----------------|------|------|

### 12. Unspent conditional grants and receipts (continued)

These amounts are invested in a ring-fenced investment until utilised. Revenue is only recognised from these conditional grants once all conditions relating to expenditure are fulfilled.

### 13. Provisions

#### Reconciliation of provisions - 2014

|                              | Opening Balance  | Additions        | Reversed during the year | Total            |
|------------------------------|------------------|------------------|--------------------------|------------------|
| Provision for landfill site  | 302,500          | 810,000          | (302,500)                | 810,000          |
| Provision for doubtful debts | -                | 621,175          | -                        | 621,175          |
| Provision for Leave pay      | 887,653          | 1,007,556        | (887,653)                | 1,007,556        |
|                              | <b>1,190,153</b> | <b>2,438,731</b> | <b>(1,190,153)</b>       | <b>2,438,731</b> |

#### Reconciliation of provisions - 2013

|                              | Opening Balance  | Utilised during the year | Total            |
|------------------------------|------------------|--------------------------|------------------|
| Environmental rehabilitation | 302,500          | -                        | 302,500          |
| Leave pay provisions         | 931,907          | (44,254)                 | 887,653          |
|                              | <b>1,234,407</b> | <b>(44,254)</b>          | <b>1,190,153</b> |

The provisions for the above relates to expenses directly attributed to the rehabilitation of landfill site and leave pay-out for staff leave days. The municipality expects to incur these expenses during the next financial year and the amount to be incurred is uncertain.

### 14. Revaluation reserve

|                        |                  |                  |
|------------------------|------------------|------------------|
| Opening balance        | 7,711,614        | 2,884,676        |
| Change during the year | 1,040,112        | 4,826,938        |
|                        | <b>8,751,726</b> | <b>7,711,614</b> |

### 15. Contingency liability

In terms of GRAP 19, the municipality is required to disclose a contingency liability in the financial statements. Due to the fact that not all the posts on the municipality's organogram were evaluated, it made it impractical for the municipality to measure the cost of the liability reliably. The only contingent liability the municipality expects to incur is as a result of implementing the Wage Curve.

### 16. Service charges

|                |        |        |
|----------------|--------|--------|
| Refuse removal | 35,265 | 21,455 |
|----------------|--------|--------|

### 17. Rental of facilities and equipment

#### Facilities and equipment

|                               |                |                |
|-------------------------------|----------------|----------------|
| Hall Hire                     | 24,323         | 13,337         |
| Rental of equipment           | 38,963         | 29,100         |
| Residential Rental- Lot 52    | 49,099         | 43,446         |
| Rental income- Thusong Centre | 88,326         | 89,087         |
| Rental income- Market Stalls  | 39,090         | 17,500         |
|                               | <b>239,801</b> | <b>192,470</b> |
| Premises                      | -              | -              |
| Garages and parking           | -              | -              |
| Facilities and equipment      | 239,801        | 192,470        |

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Notes to the Annual Financial Statements

| Figures in Rand | 2014 | 2013 |
|-----------------|------|------|
|-----------------|------|------|

### 18. Other income

|                              |                |                  |
|------------------------------|----------------|------------------|
| Sundry Receipts              | 800            | 4,952,495        |
| Tender Fees                  | 61,797         | 41,502           |
| Rates Certificates           | 2,500          | 3,587            |
| Local Government SETA Refund | 11,399         | 59,573           |
| Income from Insurance        | 104,188        | -                |
| Copies, Fax and Printing     | 44,292         | 28,388           |
|                              | <b>224,976</b> | <b>5,085,545</b> |

### 19. Investment revenue

#### Interest revenue

|                                                 |                  |                  |
|-------------------------------------------------|------------------|------------------|
| Bank                                            | 1,112,138        | 1,503,508        |
| Interest charged on trade and other receivables | 73,398           | 57,144           |
|                                                 | <b>1,185,536</b> | <b>1,560,652</b> |

The amount included in Investment revenue arising from non-exchange transactions amounted to R1,112,138 -.

Total interest income, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R73,398 (PY: R57,144).

### 20. Property rates

#### Rates received

|                          |                  |                  |
|--------------------------|------------------|------------------|
| Residential              | 363,331          | 249,209          |
| Commercial property      | 184,831          | 126,776          |
| Municipal                | 367,600          | 252,137          |
| Small holdings and farms | 934,717          | 641,123          |
| Industrial               | 165,123          | 113,258          |
| Multi-purpose            | 46,844           | 32,130           |
| Less: Income forgone     | (330,087)        | (25,012)         |
|                          | <b>1,732,359</b> | <b>1,389,621</b> |

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Notes to the Annual Financial Statements

| Figures in Rand                            | 2014              | 2013              |
|--------------------------------------------|-------------------|-------------------|
| <b>21. Government grants and subsidies</b> |                   |                   |
| <b>Operating grants</b>                    |                   |                   |
| Equitable share                            | 22,128,350        | 21,618,200        |
| Library Grant                              | 493,017           | 341,000           |
| Expended Public Work Program Grant         | 1,011,767         | 988,233           |
| Finance Management Grant                   | 1,570,492         | 1,451,825         |
| Free Basic Electricity Grant               | 1,164,650         | 1,236,402         |
| Celebration Freedom Flame Grant            | 27,818            | -                 |
| Sport and Recreation Grant                 | 88,972            | 199,553           |
| Cyber Cadet Grant (Art & Culture)          | 80,319            | -                 |
| Systems Improvement Grant                  | 34,136            | -                 |
| Public Participation                       | 198,576           | -                 |
|                                            | <b>26,485,066</b> | <b>25,835,213</b> |
| <b>Capital grants</b>                      |                   |                   |
| Electrification Grant                      | 5,000,000         | -                 |
| Finance Management Grant                   | 79,508            | 48,175            |
| Milling Grant                              | 6,856,062         | 2,050,121         |
| Municipal Infrastructure Grant             | 11,241,267        | 12,225,733        |
| Municipal System Improvement Grant         | 855,864           | 800,000           |
| Cyber Cadet (capital)                      | 2,792             | -                 |
| Small Town Rehabilitation Grant            | 8,327,963         | 4,574,260         |
| Thusong Centre Grant                       | 121,856           | 154,367           |
| Library Grant                              | 20,983            | -                 |
| Celebration Freedom Flame Grant (capital)  | 7,182             | -                 |
|                                            | <b>20,577,907</b> | <b>17,754,360</b> |
|                                            | <b>59,311,574</b> | <b>45,687,869</b> |

### Equitable Share

In terms of the South African Constitution, this grant is used to subsidise the provision of basic services to indigent community members. During 2012/2013, the municipality had R4 940 000 on Municipal Infrastructure Grant which was withheld by National Treasury during 2013/2014 financial year. This amount was withheld against 2013/2014 equitable share, off the R4 940 000, R2 500 000 was withheld during 2013/2014 and the remainder will be withheld against 2014/2015 equitable share.

### Free Basic Electricity Grant

|                                         |             |             |
|-----------------------------------------|-------------|-------------|
| Balance unspent at beginning of year    | -           | 98,602      |
| Current-year receipts                   | 1,164,650   | 1,137,800   |
| Conditions met - transferred to revenue | (1,164,650) | (1,236,402) |
|                                         | <b>-</b>    | <b>-</b>    |

All conditions were met.

#### Conditions

This grant is to be used to provide monthly subsidy of 50kW free to indigent people.

#### Transfers

The grant was transferred by National Treasury.

#### Focus

The focus was to assist the municipality subsidise indigent people in the community.

#### Implementation

As at 30 June 2014 implementation was 100% complete.

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Notes to the Annual Financial Statements

| Figures in Rand | 2014 | 2013 |
|-----------------|------|------|
|-----------------|------|------|

### 21. Government grants and subsidies (continued)

#### Small Town Rehabilitation Grant

|                                         |                  |                  |
|-----------------------------------------|------------------|------------------|
| Balance unspent at beginning of year    | 4,943,327        | 4,517,587        |
| Current-year receipts                   | 4,625,000        | 5,000,000        |
| Conditions met - transferred to revenue | (8,327,963)      | (4,574,260)      |
|                                         | <b>1,240,364</b> | <b>4,943,327</b> |

Conditions still to be met - remain liabilities (see note 12).

The grant is for the implementation of projects to enhance Impendle town by upgrading Mafahleni Street.

The Grant was transferred by Department of Cooperative Governance and Traditional Affairs

As at 30 June 2014, the implementation was 87% complete

#### Cyber Cadet Grant

|                                      |               |          |
|--------------------------------------|---------------|----------|
| Balance unspent at beginning of year | 120,000       | -        |
| Current-year receipts                | (83,110)      | -        |
|                                      | <b>36,890</b> | <b>-</b> |

Conditions still to be met - remain liabilities (see note 12).

This grant is to be used to pay Cyber Cadet salary.

The grant was transferred by Provincial Library Services Department.

As at 30 June 2014, the implementation was 69% complete.

#### IDP Public Participation Grant

|                                         |              |          |
|-----------------------------------------|--------------|----------|
| Current-year receipts                   | 200,000      | -        |
| Conditions met - transferred to revenue | (198,576)    | -        |
|                                         | <b>1,424</b> | <b>-</b> |

Conditions still to be met - remain liabilities (see note 12).

This grant is to be used to enhance public participation and improve communication by the municipality.

The grant was transferred by Provincial Cooperative Governance and Traditional Affairs

As at 30 June 2014, implementation was 99% complete.

#### Housing Fund Grant

|                                         |                |                |
|-----------------------------------------|----------------|----------------|
| Balance unspent at beginning of year    | 380,138        | 678,911        |
| Current-year receipts                   | 953            | -              |
| Conditions met - transferred to revenue | -              | (298,773)      |
|                                         | <b>381,091</b> | <b>380,138</b> |

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Notes to the Annual Financial Statements

| Figures in Rand | 2014 | 2013 |
|-----------------|------|------|
|-----------------|------|------|

### 21. Government grants and subsidies (continued)

All conditions were met

#### Conditions

This grant is to be used to finance the preliminary stage of housing development

#### Transfers

The grant was transferred by the Department of Human Settlement

#### Focus

The focus was to finance the preliminary stage of housing development

#### Implementation

The municipality made an application to use this money towards building rental flats or putting water septic tanks on the houses built using this grant.

### Milling Culture Grant

|                                         |                |                  |
|-----------------------------------------|----------------|------------------|
| Balance unspent at beginning of year    | 2,167,609      | 4,217,730        |
| Current-year receipts                   | 5,000,000      | -                |
| Conditions met - transferred to revenue | (6,856,062)    | (2,050,121)      |
|                                         | <b>311,547</b> | <b>2,167,609</b> |

Conditions still to be met - remain liabilities (see note 12).

The Maize Massification programme is designed to develop rural municipalities within the priority corridors in terms of poverty alleviation, job creation, food security as well as Local Economic Development. The implementation processes for the identified projects to ensure that there is implementation alignment across the board.

This grant was transferred by the Cooperative Governance and Traditional Affairs.

### Municipal Infrastructure Grant

|                                         |              |                |
|-----------------------------------------|--------------|----------------|
| Balance unspent at beginning of year    | 135,267      | 1,600,000      |
| Current-year receipts                   | 11,106,000   | 10,761,000     |
| Conditions met - transferred to revenue | (11,241,267) | (12,225,733)   |
|                                         | <b>-</b>     | <b>135,267</b> |

Conditions still to be met - remain liabilities

#### Conditions

This grant is to be used for Infrastructure development only.

#### Transfers

The grant was transferred by National Treasury

#### Focus

The grant is intended to provide specific capital finance for basic municipal infrastructure backlogs for poor households to micro-enterprises and social institutions servicing poor communities.

### Freedom Flame Grant

|                                         |          |          |
|-----------------------------------------|----------|----------|
| Balance unspent at beginning of year    | -        | -        |
| Current-year receipts                   | 35,000   | -        |
| Conditions met - transferred to revenue | (35,000) | -        |
|                                         | <b>-</b> | <b>-</b> |



# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Notes to the Annual Financial Statements

| Figures in Rand | 2014 | 2013 |
|-----------------|------|------|
|-----------------|------|------|

### 21. Government grants and subsidies (continued)

All conditions were met.

#### Conditions

This grant is to be used for the 20 years celebration of freedom.

#### Transfers

The grant was transferred by Provincial Treasury.

#### Implementation

As at 30 June 2014 implementation was 100% complete

#### Electrification Grant

|                                         |             |                  |
|-----------------------------------------|-------------|------------------|
| Balance unspent at beginning of year    | 5,000,000   | 4,948,166        |
| Current-year receipts                   | -           | 5,000,000        |
| Conditions met - transferred to revenue | (5,000,000) | -                |
| Other                                   | -           | (4,948,166)      |
|                                         | <b>-</b>    | <b>5,000,000</b> |

Conditions were met and as at June 2014, the implementation was 100% complete.

This is used to implement the integrated national electrification by providing capital subsidies to Eskom to address the electrification backlog of permanently occupied dwellings, the installation of bulk infrastructure and rehabilitation of electrification infrastructure.

This grant was transferred by the Department of Energy.

#### Sport and Recreation Grant

|                                         |               |                |
|-----------------------------------------|---------------|----------------|
| Balance unspent at beginning of year    | 100,447       | 150,000        |
| Current-year receipts                   | -             | 150,000        |
| Conditions met - transferred to revenue | (88,971)      | (199,553)      |
|                                         | <b>11,476</b> | <b>100,447</b> |

Conditions still to be met - remain liabilities (see note 12).

This grant is for mass participation and sport development grant aim at increasing and sustains mass participation in sport and recreational activities in sport.

This grant was transferred by Department of Sport and Recreation

#### Expended Public Work Program Grant

|                                         |             |               |
|-----------------------------------------|-------------|---------------|
| Balance unspent at beginning of year    | 11,767      | -             |
| Current-year receipts                   | 1,000,000   | 1,000,000     |
| Conditions met - transferred to revenue | (1,011,767) | (988,233)     |
|                                         | <b>-</b>    | <b>11,767</b> |

Conditions were met and as at 30 June 2014, the implementation was 100% complete.

The EPWP creates work opportunities in four sectors, namely, Increasing the labour intensity of government – funded infrastructure project, Create work opportunities through the Non- Profit Organisation Programme (NPO) and Community Work Programme (CWP) under the Non – State sector, Create work opportunities in public environment and culture programmes under the Environment and Culture sector, Create work opportunities in public social programmes under the Social sector. The EPWP also provide Training and Enterprise Development support, at a sub – programme level.

This grant was transferred by the Department of Public Works

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Notes to the Annual Financial Statements

| Figures in Rand | 2014 | 2013 |
|-----------------|------|------|
|-----------------|------|------|

### 21. Government grants and subsidies (continued)

#### Thusong Centre Grant

|                                         |                |                |
|-----------------------------------------|----------------|----------------|
| Balance unspent at beginning of year    | 245,633        | -              |
| Current-year receipts                   | -              | 400,000        |
| Conditions met - transferred to revenue | (121,855)      | (154,367)      |
|                                         | <b>123,778</b> | <b>245,633</b> |

Conditions still to be met - remain liabilities (see note 12).

This is an ongoing initiative that focuses on the rural areas and under-served areas with the following key objectives, To bring government information and services closer to the people, To promote access to opportunities as a basis for improved livelihoods, To create a platform for greater dialogue between citizens and government, To promote cost-effective, integrated, efficient and sustainable service provision to better serve the needs of citizens.

The grant was transferred by the National Cooperative Governance and Traditional Affairs

#### HIV/AIDS Grant (UMDM)

|                       |        |   |
|-----------------------|--------|---|
| Current-year receipts | 20,000 | - |
|-----------------------|--------|---|

Conditions still to be met - remain liabilities (see note 12).

The grant was transferred by uMgungundlovu District Municipality.

Focus: The focus was to help in the implementation of HIV/AIDS programmes within the Impendle Municipality.

As at 30 June 2014, the municipality was yet to implement the programmes.

#### Finance Management Grant

|                                         |             |             |
|-----------------------------------------|-------------|-------------|
| Current-year receipts                   | 1,650,000   | 1,500,000   |
| Conditions met - transferred to revenue | (1,650,000) | (1,500,000) |
|                                         | -           | -           |

All conditions were met

#### Conditions

This grant is to be used to finance the cost of training finance interns, training, buying assets for finance department

#### Transfers

The grant was transferred by National Treasury

#### Focus

The focus of this grant is to promote and support reforms of financial management by building capacity in municipalities to implement the Municipal Finance Management Act No. 56 of 2003.

#### Implementation

As at 30 June 2014 implementation was 100% complete

#### Municipal System Improvement Grant

|                                         |           |           |
|-----------------------------------------|-----------|-----------|
| Current-year receipts                   | 890,000   | 800,000   |
| Conditions met - transferred to revenue | (890,000) | (800,000) |
|                                         | -         | -         |

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Notes to the Annual Financial Statements

| Figures in Rand | 2014 | 2013 |
|-----------------|------|------|
|-----------------|------|------|

### 21. Government grants and subsidies (continued)

All conditions were met.

#### Conditions

This grant is to be used for municipal system improvement

#### Transfers

The grant was transferred by National Co-operative Governance and Traditional Affairs (COGTA)

#### Focus

The focus of this grant is to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act, 2000 and related legislations and policies.

#### Library Grant (Arts and culture)

|                                         |           |           |
|-----------------------------------------|-----------|-----------|
| Current-year receipts                   | 514,000   | 341,000   |
| Conditions met - transferred to revenue | (514,000) | (341,000) |
|                                         | -         | -         |

All Conditions were met for this grant. As at 30 June 2014, implementation was 100% complete.

Conditions: This grant is to be used to transform urban and rural community library infrastructure facilities and services through a recapitalised programme of provincial level in support of local government and national initiatives.

Transfers: The grant was transferred by Provincial Library Department.

Focus: The focus was to assist the municipality to finance the salary of the library staff

### 22. Revenue

|                                    |                   |                   |
|------------------------------------|-------------------|-------------------|
| Rendering of services              | 41,290            | 34,398            |
| Service charges                    | 35,265            | 21,455            |
| Rental of facilities and equipment | 239,801           | 192,470           |
| Licences and permits               | 27,789            | 22,609            |
| Other income                       | 224,976           | 5,085,545         |
| Interest received - investment     | 1,185,536         | 1,560,652         |
| Property rates                     | 1,732,359         | 1,389,621         |
| Government grants and subsidies    | 59,311,574        | 45,687,869        |
| Fines                              | 23,500            | 22,250            |
|                                    | <b>62,822,090</b> | <b>54,016,869</b> |

#### The amount included in revenue arising from exchanges of goods or services are as follows:

|                                    |                  |                  |
|------------------------------------|------------------|------------------|
| Service charges                    | 35,265           | 21,455           |
| Rendering of services              | 41,290           | 34,398           |
| Rental of facilities and equipment | 239,801          | 192,470          |
| Licences and permits               | 27,789           | 22,609           |
| Other income                       | 224,976          | 5,085,545        |
| Interest received - investment     | 1,185,536        | 1,560,652        |
|                                    | <b>1,754,657</b> | <b>6,917,129</b> |

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Notes to the Annual Financial Statements

| Figures in Rand                                                                             | 2014              | 2013              |
|---------------------------------------------------------------------------------------------|-------------------|-------------------|
| <b>22. Revenue (continued)</b>                                                              |                   |                   |
| <b>The amount included in revenue arising from non-exchange transactions is as follows:</b> |                   |                   |
| <b>Taxation revenue</b>                                                                     |                   |                   |
| Property rates                                                                              | 1,732,359         | 1,389,621         |
| <b>Transfer revenue</b>                                                                     |                   |                   |
| Government grants & subsidies                                                               | 59,311,574        | 45,687,869        |
| Fines                                                                                       | 23,500            | 22,250            |
|                                                                                             | <b>61,067,433</b> | <b>47,099,740</b> |
| <b>23. Employee related costs</b>                                                           |                   |                   |
| Basic                                                                                       | 9,000,561         | 8,850,644         |
| Bonus                                                                                       | 704,098           | 594,256           |
| Medical aid - company contributions                                                         | 598,194           | 371,223           |
| UIF                                                                                         | 100,651           | 93,754            |
| SDL                                                                                         | 137,123           | 139,364           |
| Other payroll levies                                                                        | 6,413             | 5,315             |
| Leave pay provision charge                                                                  | 1,007,556         | (44,254)          |
| Defined contribution plans                                                                  | 1,156,485         | 1,004,329         |
| Overtime payments                                                                           | 94,145            | 137,846           |
| Long-service awards                                                                         | 341,640           | -                 |
| Housing benefits and allowances                                                             | 29,158            | 33,522            |
| Cellphone Allowance                                                                         | 255,979           | 202,792           |
|                                                                                             | <b>13,432,003</b> | <b>11,388,791</b> |
| <b>Remuneration of municipal manager</b>                                                    |                   |                   |
| Annual Remuneration                                                                         | 600,239           | 718,963           |
| Allowances                                                                                  | 144,000           | -                 |
|                                                                                             | <b>744,239</b>    | <b>718,963</b>    |
| <b>Remuneration of chief finance officer</b>                                                |                   |                   |
| Annual Remuneration                                                                         | 411,584           | 45,747            |
| Allowances                                                                                  | 280,250           | -                 |
|                                                                                             | <b>691,834</b>    | <b>45,747</b>     |
| <b>Corporate and human resources (corporate services)</b>                                   |                   |                   |
| Annual Remuneration                                                                         | 354,408           | 564,582           |
| Allowances                                                                                  | 74,867            | -                 |
|                                                                                             | <b>429,275</b>    | <b>564,582</b>    |
| <b>Infrastructure &amp; Planning</b>                                                        |                   |                   |
| Annual Remuneration                                                                         | 593,119           | 217,344           |
| <b>Total Remuneration</b>                                                                   |                   |                   |
| Annual Remuneration                                                                         | 15,890,470        | 12,791,414        |

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Notes to the Annual Financial Statements

| Figures in Rand                                                               | 2014             | 2013             |
|-------------------------------------------------------------------------------|------------------|------------------|
| <b>24. Remuneration of councillors</b>                                        |                  |                  |
| Mayor                                                                         | 346,426          | 322,003          |
| MPAC Chairperson                                                              | 298,378          | -                |
| Councillors (All councillors except MPAC Chairperson are in the same bracket) | 974,137          | 1,065,019        |
|                                                                               | <b>1,618,941</b> | <b>1,387,022</b> |

There were no councillors who had arrear accounts outstanding for more than 90 days during the reporting period.

### In-kind benefits

The remuneration of the Political Office Bearers and Councillors are within the upper limits as determined by the framework envisaged in section 219 of the Constitution.

The Mayor is not full-time. He is provided with an office, cellphone, 3G mordem and a laptop at the cost of the Council.

The Mayor utilises Council owned vehicle for official duties.

The Mayor has two full-time mayoral aids sourced from municipal security department .

### 25. Employee benefit obligations- Long Service Award

#### Key assumptions used

Assumptions used at the reporting date:

#### Key Financial Assumptions

|                                      |       |   |
|--------------------------------------|-------|---|
| Discount rate                        | 8.43% | - |
| General Salary Inflation (long-term) | 7.41% | - |

The salaries used in the valuation include an assumed increase on 01 July 2014 of 6.79% as per the SALGBC Circular No: 3/2014. The next salary increase was assumed to take place on 01 July 2015.

#### Key Demographic Assumptions

| Withdrawal from Service (sample annual rate) | Age | Female | Male |
|----------------------------------------------|-----|--------|------|
|                                              | 20  | 24%    | 16%  |
|                                              | 30  | 15%    | 10%  |
|                                              | 40  | 6%     | 6%   |
|                                              | 50  | 2%     | 2%   |
|                                              | 55  | 0%     | 0%   |

The average retirement age is 62 years for males and 50 years for females.

The mortality rate during employment in South Africa is 85 years to 90 years

### 26. Administrative expenditure

|            |         |         |
|------------|---------|---------|
| Audit fees | 925,859 | 475,517 |
|------------|---------|---------|

### 27. Depreciation and amortisation

|                               |           |           |
|-------------------------------|-----------|-----------|
| Property, plant and equipment | 3,032,245 | 2,004,205 |
|-------------------------------|-----------|-----------|

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Notes to the Annual Financial Statements

| Figures in Rand                                                                                                                                                                                                                                      | 2014             | 2013             |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| <b>28. Impairment of assets</b>                                                                                                                                                                                                                      |                  |                  |
| <b>Impairments</b>                                                                                                                                                                                                                                   |                  |                  |
| Property, plant and equipment                                                                                                                                                                                                                        | 83,995           | 4,213,036        |
| Plant and Equipment was revalued and assessed for impairment during the reporting period. Certain Plant within the Plant & Equipment was subsequently impaired by R83,995.00.                                                                        |                  |                  |
| <b>Reversal of impairments</b>                                                                                                                                                                                                                       |                  |                  |
| Property, plant and equipment                                                                                                                                                                                                                        | (190,230)        | -                |
| Infrastructure assets which were previously impaired, were revalued and the impairment loss for the previous year was reversed. The recoverable service amount of the asset was based on its fair value less its value in use.                       |                  |                  |
|                                                                                                                                                                                                                                                      | 83,995           | 4,213,036        |
|                                                                                                                                                                                                                                                      | (190,230)        | -                |
| <b>Total impairment losses (recognised) reversed</b>                                                                                                                                                                                                 | <b>(106,235)</b> | <b>4,213,036</b> |
| During the 2013 financial year, infrastructure assets and plant and machinery were impaired with an amount of R4,213,036. Both the classes of assets above were revalued during the 2014 financial year and the impairment was reversed by R106,235. |                  |                  |
| <b>29. Finance costs</b>                                                                                                                                                                                                                             |                  |                  |
| Non-current borrowings                                                                                                                                                                                                                               | 82,016           | 129,106          |
| Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R82016 - (2013: R 129106-).                                                                  |                  |                  |
| <b>30. Debt impairment</b>                                                                                                                                                                                                                           |                  |                  |
| Debt impairment                                                                                                                                                                                                                                      | 66,236           | 62,540           |
| <b>31. Contracted services</b>                                                                                                                                                                                                                       |                  |                  |
| Specialist Services                                                                                                                                                                                                                                  | 424,253          | 343,777          |
| Contracted services were for services rendered by Chubb, Nashua, Minolta.                                                                                                                                                                            |                  |                  |
| <b>32. Grants funded expenditure</b>                                                                                                                                                                                                                 |                  |                  |
| <b>Other subsidies</b>                                                                                                                                                                                                                               |                  |                  |
| IDP Review and Public Participation                                                                                                                                                                                                                  | 193,243          | -                |
| Cyber Cadet Grant                                                                                                                                                                                                                                    | 80,319           | -                |
| Electrification projects                                                                                                                                                                                                                             | 6,166,580        | 2,740,191        |
| Municipal System Improvement Grant                                                                                                                                                                                                                   | -                | 77,100           |
| Finance Management Grant                                                                                                                                                                                                                             | 1,469,978        | 1,486,980        |
| Communication Plan-Community                                                                                                                                                                                                                         | 15,823           | -                |
| Thusong Services                                                                                                                                                                                                                                     | 111,618          | 36,489           |
| Expanded Public Works                                                                                                                                                                                                                                | 1,407,415        | 940,295          |
| Sports Facilities Maintenance                                                                                                                                                                                                                        | 88,972           | 174,819          |
|                                                                                                                                                                                                                                                      | <b>9,533,948</b> | <b>5,455,874</b> |
| Other subsidies                                                                                                                                                                                                                                      | -                | -                |
|                                                                                                                                                                                                                                                      | <b>9,533,948</b> | <b>5,455,874</b> |

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Notes to the Annual Financial Statements

| Figures in Rand                                  | 2014              | 2013              |
|--------------------------------------------------|-------------------|-------------------|
| <b>33. General expenses</b>                      |                   |                   |
| Advertising                                      | 98,301            | 201,595           |
| Art tourism culture                              | 91,293            | 6,200             |
| Bank charges                                     | 58,495            | 95,092            |
| Children support                                 | 1,982             | 65,570            |
| Cleaning                                         | 33,800            | 27,512            |
| Consulting and professional fees                 | -                 | 127,010           |
| Consumables                                      | 9,900             | 42,607            |
| Elderly support                                  | 87,047            | 35,890            |
| Electricity                                      | 2,194,362         | 1,678,061         |
| Fuel and oil                                     | 362,417           | 488,773           |
| HIV- Health                                      | 24,537            | 115,649           |
| IDP Review                                       | 238,129           | 71,987            |
| Lease rentals on operating lease                 | 700,454           | 633,757           |
| LED Business plans and strategy                  | 1,170             | 2,300             |
| Motor vehicle licence fees                       | 8,767             | 10,393            |
| Other expenses                                   | 4,482,674         | 2,851,418         |
| Poverty alleviation                              | 26,005            | 86,777            |
| Project management                               | 510,474           | 107,734           |
| Printing and stationery                          | 159,735           | 252,934           |
| Protective clothing                              | 38,878            | 113,072           |
| Repairs of landfill site                         | 810,000           | -                 |
| Scrapping loss                                   | 30,850            | 120,421           |
| Subscriptions and membership fees                | 498,373           | 405,550           |
| Telephone and fax                                | 292,304           | 374,237           |
| Tourism development                              | -                 | 506,730           |
| Training                                         | 426,144           | 481,289           |
| Travel - local                                   | 163,482           | 342,434           |
| TV licenses                                      | 3,905             | 4,465             |
| Insurance                                        | 99,355            | -                 |
| Disability Support                               | 4,000             | -                 |
|                                                  | <b>11,456,833</b> | <b>9,249,457</b>  |
| <b>34. Fair value adjustments</b>                |                   |                   |
| Investment property (Fair value model)           | 620,000           | 350,000           |
| <b>35. Cash generated from operations</b>        |                   |                   |
| Surplus                                          | 20,117,888        | 17,032,756        |
| <b>Adjustments for:</b>                          |                   |                   |
| Depreciation and amortisation                    | 3,032,245         | 2,004,205         |
| Fair value adjustments                           | (620,000)         | (350,000)         |
| Impairment                                       | (106,235)         | 4,213,036         |
| Debt impairment                                  | 66,236            | 62,540            |
| Movements in operating lease assets and accruals | 102,656           | (25,434)          |
| Movements in provisions                          | 1,248,578         | (44,254)          |
| <b>Changes in working capital:</b>               |                   |                   |
| Receivables from exchange transactions           | (135,550)         | (71,671)          |
| Consumer debtors                                 | (709,548)         | (51,842)          |
| Payables from exchange transactions              | 23,279            | 182,186           |
| VAT                                              | (258,770)         | 1,826,168         |
| Unspent conditional grants and receipts          | (10,857,618)      | (3,226,808)       |
|                                                  | <b>11,903,161</b> | <b>21,550,882</b> |

# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Notes to the Annual Financial Statements

| Figures in Rand | 2014 | 2013 |
|-----------------|------|------|
|-----------------|------|------|

### 36. Other cash item

Other non-cash item include transfer of completed WIP to infrastructure assets and community assets, revaluation surplus, adjustments and prior year adjustments, depreciation, Intangible assets written off and impairment loss.

### 37. Commitments

#### Authorised capital expenditure

##### Already contracted for but not provided for

|                         |                   |                   |
|-------------------------|-------------------|-------------------|
| • Capital programme     | 20,243,205        | 13,967,512        |
| • Operational programme | 1,247,016         | 1,483,222         |
|                         | <b>21,490,221</b> | <b>15,450,734</b> |

This committed expenditure relates to plant and equipment and will be financed by Municipal Infrastructure Grant and Small Town Rehabilitation Grant.

#### Operating leases - as lessee (expense)

##### Minimum lease payments due

|                                     |                  |                  |
|-------------------------------------|------------------|------------------|
| - within one year                   | 700,455          | 540,435          |
| - in second to fifth year inclusive | 1,162,028        | 942,787          |
|                                     | <b>1,862,483</b> | <b>1,483,222</b> |

Operating lease payments represent rentals payable by the municipality for certain of its office photocopying machines. Leases are negotiated for an average term of five years and rentals have straightlined for the lease term duration. No contingent rent is payable.

### 38. Related parties

There were no related party transaction for the financial period.

### 39. Change in estimate

#### Property, plant and equipment

There were changes of estimates of the useful lives of assets during the reporting period.

### 40. Prior period errors

Property, Plant and Equipment was overstated due to the depreciation on furniture and fitting being understated by R13,904.84 during 2012/2013 financial year, the effect of the error is that Accumulated Surplus was overstated by R13,904.84 and the Accumulated Depreciation was understated by R13,904.84. The scrapping loss on Furniture and Fixtures and IT Equipment were overstated by R6,319 during the year 2013-2014, the effect of the error is that the Accumulated surplus was understated assets were overstated by R6,319. During the year 2013-2014, VAT Receivable was overstated by R4,924.45 due to VAT claims rejected by SARS, the effect of the error is that Vat Receivable was overstated by R4,924.45 and the Accumulated Surplus was understated by R4,924.45. Trade and Other receivables were understated due to an incorrect billing of debcttors.

The correction of the error(s) results in adjustments as follows:

#### Statement of financial position

|                                        |            |            |
|----------------------------------------|------------|------------|
| Property, plant and equipment          | 57,202,102 | 57,216,007 |
| Opening Accumulated Surplus or Deficit | 15,207,955 | 15,206,613 |

#### Statement of Financial Performance

|                      |            |            |
|----------------------|------------|------------|
| Surplus for the year | 17,034,098 | 17,032,756 |
|----------------------|------------|------------|



# Impendle Local Municipality

Annual Financial Statements for the year ended June 30, 2014

## Notes to the Annual Financial Statements

| Figures in Rand                            | 2014         | 2013         |
|--------------------------------------------|--------------|--------------|
| <b>40. Prior period errors (continued)</b> |              |              |
| <b>Cash flow statement</b>                 |              |              |
| <b>Cash flow from operating activities</b> |              |              |
| Net cash flow from investing activities    | (17,758,463) | (17,772,368) |

### 41. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 42. Fruitless and wasteful expenditure

|                                                                                                               |                  |            |
|---------------------------------------------------------------------------------------------------------------|------------------|------------|
| Fruitless and wasteful expenditure in respect of interest and penalties due to late payments to suppliers and | 796              | 121        |
| Money paid to a contractor for stand off-time                                                                 | 1,136,704        | -          |
|                                                                                                               | <b>1,137,500</b> | <b>121</b> |

The fruitless and wasteful expenditure above has been reported to the accounting officer and the municipal council, there is an investigation currently conducted by the accounting officer through the Internal Auditors.

### 43. Irregular expenditure

|                                          |           |          |
|------------------------------------------|-----------|----------|
| Add: Irregular Expenditure- current year | 615,858   | -        |
| Less: Amounts condoned                   | (615,858) | -        |
|                                          | <b>-</b>  | <b>-</b> |

### Details of irregular expenditure condoned

|                            |                                                                                                                                |                |
|----------------------------|--------------------------------------------------------------------------------------------------------------------------------|----------------|
|                            | Condoned by municipal council- Resolution No. 7.9/2014/08/28                                                                   |                |
| Preben Naidoo & Associates | Irregular expenditure due to contracted engineering consultants continuing to render services after the contract have expired. | 466,503        |
| PD Naidoo & Associates     | Irregular expenditure due to contracted engineering consultants continuing to render services after the contract have expired. | 149,355        |
|                            |                                                                                                                                | <b>615,858</b> |

### 44. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Transport, newspaper advertising, Government printing works, South African post office, Early Works, Boston Garage, Durban University of Technology, Ziyasha Security, Dellotte Consultants, Wits Business School were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.